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ABSTRACT

This working paper examines key policy issues in the implementation of Australia's User Choice policy regarding allocating public funds for vocational education and training (VET). Part 1 explains the process used to obtain stakeholders regarding the User Choice policy, the administrative arrangements required to support it, and issues that must be resolved before its full implementation. Part 2 states the objectives of User Choice, and part 3 identifies its essential elements. The following key policy issues are discussed in part 4: issues related to the need for a common focus on User Choice; demand side issues (distribution of benefits and costs of training among employers, employees, and the government; greater involvement of employers in VET development; User Choice and small business; VET in schools; access and equity issues; information); supply responses (maintenance and enhancement of the momentum for structural reform to achieve a more open and competitive training market; third-party access; costing and pricing; and cost shifting); "thin" markets; and maintenance of the VET base. Part 5 considers matters that must be addressed if User Choice is to be introduced on an effective, sustainable basis. Appended is a discussion of principles underlying identification of user choice policy issues. (MN)

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Joy Selby Smith, Chris Selby Smith and Fran Ferrier
November 1996

MONASH UNIVERSITY - ACER

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This Working Paper is substantially the report prepared by Joy Selby Smith Pty. Ltd. for the Australian National Training Authority and is published with their permission. The report to ANTA was prepared by a team which included two members of the Monash University-Australian Council for Educational Research Centre for the Economics of Education and Training.

1. INTRODUCTION

1.1 Background

At its 17 July 1996 meeting, the ANTA Ministerial Council

" .....(v) agreed that ANTA after consultation with Industry and State Territory and Commonwealth Ministers, would provide for MINCO in September 1996 a report setting out:

- a statement of User Choice policy;
- details of administrative arrangements required to support the policy; and
- issues that need to be resolved to achieve full implementation from 1 January 1998; and

(vi) agreed to progressive implementation of User Choice during 1997 and to full implementation of User Choice for off the job training for apprentices and trainees from 1 January 1998".
[Agenda Item: 3 Modern Australian Apprenticeship and Traineeship System (MAATS)]

This report is current at 19 August 1966. It focuses primarily on the key policy issues that need to be resolved to achieve full implementation of User Choice, initially in MAATS and subsequently more widely in the vocational education and training (VET) system. It is not concerned with the details of administrative arrangements required to support the implementation of User Choice policy.

The Working Paper is based on an earlier report prepared by Joy Selby Smith Pty. Ltd for the Australian National Training Authority and presented to a meeting of State, Territory and Commonwealth User Choice representatives on 11-12 July. ANTA then sought reactions to the July report from State and Territory training authorities, peak employer organisations, Group Training Australia and others. The report to ANTA was finalised in the light of the series of consultations we held with these groups between 29 July and 15 August.

1.2 The Consultations

The consultations were designed to show, *inter alia*, whether the July report to ANTA covered the main issues relating to User Choice and its implementation, or whether there were other issues that should be included; and which are the key issues. The report to ANTA also identified possible policy options which might be put forward to address the key issues; and what are the 'pros' and 'cons' in relation to each of these options.

While, the July report was generally seen to present a balanced coverage of the issues, our thinking on User Choice was informed and further developed as a result of the consultations; and some additional issues were identified. These additional issues were the place in User Choice of VET in schools, and the role of group training companies. Respondents also considered there was a need for a fuller coverage of the small business aspects of User Choice; and of cost shifting.

It was also apparent that consideration needed to be given first to specifying the objectives of User Choice and to defining its essential elements. Many with whom we talked identified the lack of clarity and consistency in the conceptualisation of User Choice as a major issue. At best, this lack of clarity had impeded progress in thinking through the issues; and in some cases, could have provided an excuse for avoiding particular issues. For these reasons we have addressed the objectives of User Choice and its definition early in the Working Paper.

Finally, a number of those with whom we consulted argued that the introduction of User Choice could have industrial relations (IR) implications: for example, 'customisation' requirements might cut across existing arrangements; and current awards or other industrial conditions might render some TAFE institutions uncompetitive. In addition, the Howard Government's proposed changes in IR arrangements could have significant effects *inter alia* on VET.

Reference is made to certain IR aspects at 4.2.2 below. Generally, however, we have not addressed IR issues either in VET or in enterprises more generally; or other, broader issues including changes in the organisation of work, technological innovation and changes in management approaches which affect the ability of enterprises to capture the benefits of their training investments, and ultimately determine the effectiveness of User Choice.

1.3 Outline of Working Paper

The Working Paper is presented in five parts:

- This Introduction forms the first part.
- Part 2 develops the objectives for User Choice.
- Part 3 defines User Choice by reference to its four essential elements.
- Part 4 identifies the key policy issues that need to be resolved to achieve full implementation of User Choice by January 1998 and poses some options for their resolution.

The structure of our approach to the key policy issues is as follows:

  - issues related to the need for a common focus on User Choice.
  - demand side issues:
    - employers and employees;
    - distribution of benefits and costs of training among employers, employees and government;
    - greater involvement of employers in VET development;
    - User Choice and small business;
    - VET in schools;
    - access and equity issues; and
    - information;
  - supply responses:
    - maintaining and enhancing the momentum for structural reform to achieve a more open and competitive training market;
    - third party access;
    - costing and pricing; and
    - cost shifting.
  - 'thin' markets.
  - maintaining the VET base.
- Part 5 considers certain matters that need to be addressed if User Choice is to be introduced on an effective and sustainable basis.
- The principles which provide the basis for the identification of the key policy issues are given in Appendix 1.

2. The Objectives of User Choice

Objectives for User Choice can be identified by reference to the recent history of moves towards a more market-based training system. The idea of a training market has been at the forefront of discussions about vocational education and training reform, and policies and actions directed towards achieving a more open and competitive training market have been of particular importance. Generally, moves to open up the training market have concentrated on the supply side, directed towards making the market more contestable and less monopolistic. There have also been demand side measures, including the formation of industry-based training advisory bodies and some responsiveness to the specialist needs of particular enterprises. However, as the Allen Consulting Group have commented in their 1994 report *Successful Reform*, these demand side measures generally have been 'strongly centralist in their approach, aggregating up from the enterprise level'. Little has been done to encourage a more 'direct and market responsive relationship between the provider of training and the purchaser/client – enterprises or individuals' (p.39). Moves towards a market-based or choice system including 'User Buys' and 'User Choice' are intended to address this perceived weakness.

The objective of User Choice is to increase the responsiveness of the vocational education and training system to the needs of its users/clients through the encouragement of a direct and market responsive relationship between individual providers and users/clients, particularly enterprises and their employees.

3. Essential Elements of User Choice

There is no common, agreed definition of User Choice and different parties have a very different understanding of what the concept means. If the objective set out above is to be achieved, four essential elements need to be satisfied:

- significantly greater market power to individual enterprises (or groups of enterprises) and their employees to negotiate with particular registered training providers, both public and private, about the off-the-job component of structured entry-level training. The negotiation can include choice of provider and choice about specific aspects of training, such as location, timing etc. The ability to negotiate may also be extended to include other clients such as Aboriginal and Torres Strait Islander (ATSI) communities;
- increased responsiveness on the supply side of the training market, to enhance the capacity of individual VET providers to respond to the expressed needs of enterprises. Training outcomes will then be able to reflect more closely clients' views of their own needs. This increased responsiveness will include greater contestability among individual providers in a public system, between public and private providers, and among providers from different State and Territory VET systems;
- negotiated training to be reflected in the flow of public funds to individual training providers. ANTA has argued that the funds, rather than being paid to enterprises, should be passed from the relevant training authority to the provider upon receiving notification of enterprises' choices; and
- User Choice outcomes to be compatible with public expenditure constraints and efficient use of resources. Public expenditure on training is constrained and always will be. There can be no implication that under User Choice **all** requests for training from enterprises, however specialised or expensive, will be met from public funds.

If these four elements are not all satisfied **together**, then whatever is implemented will not achieve full implementation of User Choice. Implementation of the separate elements alone will not meet the User Choice objective of establishing a genuine market relationship between training providers, and individual enterprises and employees, and other clients.

4. Key Policy Issues

4.1 Need for a Common Focus

There is a need for agreement among interested parties as to the parameters of User Choice. A common focus would seem to be required in relation to:

- commitment to a strong public training system;
- accepting that commitment, the importance of maintaining and enhancing the overall VET system;
- whether the training market is national; and
- who are the 'users' in User Choice, particularly in relation to off-the-job training for apprentices and trainees.

4.1.1 Commitment to a Strong Public Training System

The maintenance of strong public VET systems was supported by all those consulted, including peak employer organisations; however, it was argued by the latter that the public systems needed to be more responsive to the needs of enterprises. All parties supported the view that the public systems needed 'some curry', although views varied as to the extent to which the 'curry' needed strengthening. Some of those consulted also argued that this 'curry' should be stronger in the case of some States and Territories than others.

There was no disagreement with the view that VET has multiple objectives; however, peak employer organisations generally felt that the training needs of enterprises should now be given higher priority.

4.1.2 Importance of Maintaining and Enhancing the Overall VET System

The need to support the VET system as a whole was subscribed to in principle, more or less, by State and Territory training authorities. However, the day to day pressures on senior managers in the training authorities (in responding to ministerial queries; parliamentary questions and representations; public accountability, etc.) inevitably resulted in their attention being focused more on the public system.

There would also seem to be potential for conflict arising from public sector managers having two rather different responsibilities: as purchasers of training from a range of providers, both public and private, in the interests of users; and as managers of the public assets in State and Territory TAFE systems. To the extent that they place weight on the second responsibility, the overall training system may not be able to make its maximum contribution to meeting the training needs of enterprises. Consideration could be given within State and Territory training authorities to the separation of the purchaser of training role from the asset manager role.

Many lower ranked officials appeared more comfortable with aspects of the public system than with the wider aspects of VET, including with private providers and with training in enterprises.

4.1.3 A National Training Market?

Peak employer organisations strongly supported the development of a national training market, including competition between public providers in the different State and Territory VET systems. It was noted that many enterprises already source 'fee-for-service' training on a national basis and surprise was expressed by some that off-the-job training for apprentices and trainees would not be sourced on the same basis. Officials in State and Territory training authorities were much more ambivalent,

particularly in relation to the idea of interstate providers operating in their jurisdictions and funded from their budgets, and of their students travelling interstate.

Hilmer (*National Competition Policy*, 1993) notes that 'there is increasingly acknowledgment of the reality that Australia is for most significant purposes a single market' (p.14) and the Hilmer reforms are based on that view. Enterprises operate within the framework of the legislated Hilmer reforms and it would be inefficient if markets for key inputs including training were not subject to a similar approach. This conclusion applies even if officials argue that State and Territory training authorities may not come under the scope of competition policy arrangements.

4.1.4 Who is 'The User'?

Some, but not all, employer groups argue that 'the user' should be the enterprise alone, when referring to User Choice in relation to off-the-job training for apprentices and trainees and in other situations where employer and employee might both be involved in the training decision. On the other hand, State and Territory training authorities argued that the user should be defined to include both enterprises and employees (in MAATS), and other clients of the VET system including individuals in access and equity target groups and communities. The resolution of this difference of view, particularly in relation to MAATS, is essential to the design of a training system based on User Choice.

Key Issue

There is a lack of common understanding of the objectives and the essential elements which define the User Choice concept. These matters need to be clarified and agreed among all parties, and communicated publicly. Unless these matters are settled the effective and sustainable implementation of User Choice will be compromised.

4.2 Demand Side Issues

4.2.1 Employers and Employees

In the ideal world, employers, employees and training providers would all be working together to develop and participate in training which is beneficial to all parties. User Choice, where properly implemented, is a means of encouraging this coincidence of view. Where this situation exists, minimal interference is desirable. Respondents suggested that, whevever possible, arrangements should foster common training objectives in the enterprise setting and facilitate their achievement, e.g. through guidelines or training agreements.

However, all those consulted agreed that not all employers provide a good training environment for their employees, although it was argued, including by some training authorities, that this proportion was not large. (The proportion is an empirical matter which may warrant further investigation.) Employer representatives, in particular, emphasised that the development of User Choice should start from the premise that most employers provide a good training environment, rather than the reverse.

Key Issue

Whether the implementation of User Choice should proceed on the basis that most employers provide satisfactory training. If so, consideration could be given to 'safety net' provisions to cover the interests of employees/students where training is less satisfactory, if such provisions are not already in place.

4.2.2 Distribution of Benefits and Costs of Training Among Employers, Employees and Government

A consequence of employers having a larger say in relation to how training is provided is that the training may become more focused on the specific, short term needs of the enterprise, although peak employer organisations stress the importance attaching to portability of qualifications and skills. (Portability requires either a certain level of generic skills to be included in the enterprise-focused training or that general skills be learnt from specific training.) If training were to become more enterprise focused, and there was to be a closer integration of off-the-job and on-the-job training, a greater proportion of the benefits of training would accrue to enterprises: there then would be a case for enterprises to bear a greater share of the costs of training.

It could also be that the proposed changes in industrial relations arrangements at the national level would result in a widening of pay differentials in employment, including for the skills acquired in VET. If this were to be the case there would be an argument for employees also to bear a greater share of the costs of training.

These issues are important for User Choice, but they also have much wider implications for vocational education and training.

Key Issue

Whether the traditional arguments about the proportion of training costs to be borne publicly need to be critically re-examined. There are substantial implications for the funding and organisation of VET if this re-examination indicates that a greater share of the costs should be borne by employers and employees, respectively.

4.2.3 Greater Involvement of Employers in VET Policy Development

Peak employer organisations argued that User Choice would act as an incentive for more employers to become actively involved in training and for employers to become more committed to securing satisfactory training outcomes. If so, User Choice would contribute to an increased commitment to improved training in Australia. In turn, as the Allen Consulting Group has argued, the development of a 'substantial and demanding group of enterprises and individual clients' is necessary for the achievement of a 'genuine market relationship' (with respect to training). Employer groups consider that previously, training reforms have not taken sufficient account of their interests, notwithstanding the numbers of employer representatives involved in decision making processes, even at the highest levels. Of course, the changing political environment includes a shift in the balance of power between industry partners.

If there is to be more active involvement by enterprises and employer groups in User Choice policy development and implementation (including with State and Territory training authorities) this more active involvement needs to apply at National, State and Territory levels and also at **different** levels within the policy making and implementation process.

Key Issue

The extent and nature of involvement of enterprises and peak employer organisations in User Choice policy development and implementation.

4.2.4 User Choice and Small Business

The great majority of enterprises in Australia are small businesses (that is, have fewer than 100 employees if in manufacturing, and fewer than 20 employees if in other areas of business). In fact, most businesses are micro-businesses with fewer than five employees. It is claimed that small businesses employ the majority of apprentices and trainees in Australia, although this claim cannot be verified on a nation-wide basis through Australian Bureau of Statistics sources. Nevertheless, it would appear that significant numbers of apprentices and trainees are to be found in smaller enterprises. Thus, the impact of User Choice arrangements on small business is of importance.

User Choice has the potential to increase significantly the market power of small business in relation to training. Compared to larger enterprises, small businesses often believe they lack any influence on the public training market, even though they can feel passionately about training. This is despite the fact that small businesses can provide a wide variety of learning opportunities and represent a good learning environment.

Small businesses, especially in situations where there are owner-operator-managers, are faced with a characteristic set of problems: usually they are so preoccupied with the day-to-day operations of their businesses, every day, that they have little time to think about their strategic needs, including training.

Brokers and other intermediaries who bring together users and providers of training have an important role in assessing the needs and in delivering training to small business. They can obtain relevant market intelligence in a cost effective manner; aggregate the demand for training across a number of enterprises; and understand the operational constraints facing small enterprises. Brokers can also increase the market power of small users relative to training providers, compared to a situation where these users articulate their demands independently.

Peak employer organisations already play a significant role in representing the interests of their small business members. They understand their diverse needs and the climate in which they operate. A number have developed and are delivering training in ways that are suitable to the particular needs of small business (sometimes in conjunction with public and other private providers). These bodies have been funded by government to stimulate small business involvement in particular initiatives eg. exporting, and their capacity in this regard could be further developed in relation to training.

It remains however, that the great majority of small businesses have little if any involvement with industry associations so that the targeting of information to these businesses and involving them more extensively in training through User Choice will pose a particular challenge.

Small businesses also face particular problems in relation to the training of apprentices and trainees in that owner/operators in many cases are unable to carry employees in these categories for financial reasons. There is a particular role for **group training companies** in this regard. Group training companies (GTCs) legally take the role of employers of apprentices and trainees and then place them with 'host employers', usually smaller enterprises. Currently, there are 114 GTCs which employ nearly 21,500 trainees and apprentices, Australia-wide. Together they are working with more than 30,000 small enterprises across Australia and have less frequent contact with another 30,000 businesses.

GTCs are an important access point into and for the small business sector. They are a good source of information about small business; they act as a 'one-stop-shop'; and generally make it easier for many small businesses to participate in training. Nevertheless, it would seem that group training companies have not been fully included in the development of User Choice policy or in the planning for its implementation.

It should be noted that some GTCs also act as providers of training for particular industries and regions. In that capacity they can provide competition to other providers or even provide training services where none other exists. (GTCs with a regional basis generally have a stronger access and equity focus than those with an industry basis). Third party access to the public infrastructure is an important issue for GTCs.

Those consulted suggested that the associations representing small business and GTCs be more actively involved in the development of User Choice policy and in the detailed planning of its implementation. This involvement could include: provision of information on User Choice approaches under consideration; consultations on proposed approaches and possible improvements; and involvement in both policy development and implementation planning.

Key Issues

How to capitalise on and develop further the links already established between small enterprises and their industry associations and group training companies to facilitate the implementation of User Choice (noting that large enterprises already have substantial market power in terms of their training decisions).

There is a need to investigate the training requirements of those small enterprises not involved with industry associations, GTCs and the training system, to determine how the training needs of these very large numbers of enterprises might be met in the context of User Choice arrangements.

4.2.5 VET in Schools

'VET in Schools' links general and vocational education at the secondary school level, sometimes in combination with a workplace program. The opportunity for students to undertake some vocational education and training while enrolled in secondary school programs can have a range of advantages, including more broadly educated students entering traineeships and apprenticeships; greater flexibility and options for students; a closer link between academic and vocational studies (at least for some students) at the upper secondary level; and later choices with particular benefit for students from less advantaged backgrounds.

The format of VET in Schools programs varies among States and Territories: for example, in Victoria secondary school students can gain a VET qualification (a full certificate), whereas in N.S.W. secondary school students are able to include VET modules in their final years of study, but do not generally achieve a certificate. Schools can form a variety of partnerships to deliver VET courses: with a TAFE Institute or with a registered industry training provider, including group training companies or skills centres. Alternatively, schools may themselves register as private providers. Schools therefore can be seen as users of the VET system on behalf of their students, and as providers. As providers, third party access to publicly funded VET facilities can be relevant in particular circumstances (especially in specialised areas of instruction or in geographically remote regions).

Many of the issues which arise when considering implementation of User Choice in VET also apply when considering VET in schools: for example, the need for devolution of authority and responsibility to enable negotiation of suitable training between providers and users (i.e. schools and their students); the incentives which apply at various levels of the education and training system and the extent to which they support and encourage the achievement of wider system objectives; the desirability of focussing on the overall VET sector rather than solely public providers in one State or Territory; the protection of wider public interest aspects, including improved access and equity; and information to both providers and users, including course advice, support materials and relevant marketing and communication strategies.

However, two issues are specifically identified as being of importance. First, at present, VET in Schools is relatively small: for example, some 3-4,000 students in Victoria and substantially larger numbers in New South Wales. However, the potential for growth is large. There is a need to ensure that the development of VET in schools is more closely coordinated with planning in the VET sector, including the introduction of User Choice.

It appears that many schools do not have the necessary financial, physical or human resources to deliver the VET component of secondary school courses, so that implementation in the schools sector has been uneven and dependent on "the pioneering or entrepreneurial spirit" of a small number of schools (often of particular individuals). In general, it would seem that the development of VET in schools needs to be undertaken on a more strategic and targeted basis (in conjunction with the VET sector and industry). The Taskforce on Implementation of AVTS in Schools has recently recommended that the MCEETYA Taskforce on MAATS in Schools, the Intergovernmental Committee on the Development and Implementation of MAATS in the VET sector, and the Industry Reference Group on MAATS established by ANTA MINCO "establish mechanisms to ensure that [*inter alia*] strategic national initiatives relating to MAATS in schools are closely coordinated with VET sector plans, and consistent with the priorities and principles agreed by ANTA MINCO and MCEETYA".

Secondly, there are specific problems in relation to costing and pricing. At present, the costing and charging arrangements are different in the two sectors (VET and schools) and full account does not always seem to be taken of the effects of one on the other. The MCEETYA Working Group on the AVTS in Schools identified, in its 1995 costing exercise, a substantial difference in the average funding levels provided for the delivery of VET curriculum and the average cost of delivering a general senior secondary education (average enrolment levels can also differ). In addition, there are significant variations between VET and school costs in different States and Territories and between different types of educational program. Further investigation would be desirable in relation to the magnitude, incidence and likely future growth in these differential costs and also in relation to how the differences might be funded (especially if they are found, as alleged, to be sometimes substantial and generally likely to grow). The Taskforce on Implementation of AVTS in Schools has recommended that "joint working groups are established to undertake cross-sectoral work, where appropriate": pricing and costing for VET in Schools appears to be a high priority for such cross-sectoral work. Specifically, the development of costing and pricing arrangements for User Choice in VET should also consider related aspects in the schools sector, such as possible 'double dipping' or extra costs for VET provision for secondary school students, and how these issues might be addressed.

It is noted that in the latest Commonwealth Budget total funding of $23.4 m. is being made available over the period 1996-97 to 1999-2000 to facilitate the introduction of MAATS in schools. The Federal funding is intended to be used to provide financial assistance to States and Territories for vocational education in schools, including development of curriculum and support materials, assistance for teachers to obtain up-to-date industry experience and ensuring an adequate supply of appropriately trained teachers of vocational education.

Key Issue

Initiatives relating to VET in Schools, especially in the context of the introduction of MAATS and User Choice, be closely coordinated with VET sector plans, so that there is consistency in policy development and implementation.

4.2.6 Access and Equity Issues

In our July report to ANTA, two main access and equity issues were canvassed: the recognition of the diverse training needs of both individuals who are members of access and equity target groups (as defined by ANTA), and community groups such as Aboriginal and Torres Strait Islander communities, and the accommodation of these needs within a User Choice approach; and the possible difficulty of providing User Choice for students from access and equity target groups within a system designed primarily to respond to the needs of employers and enterprises.

The further development of our thinking, coupled with useful consultations, has clarified and strengthened the importance of these issues. In particular, our view of the need to ensure that access and equity is central to a User Choice approach has been heightened, not least because throughout the consultation process, concerns were expressed to us by a number of those consulted in State and Territory training authorities about the strong enterprise focus of User Choice and the potential for this focus to marginalise access and equity to the detriment of students.

Meeting the skill needs of industry is an important objective of the VET system, but the system also meets a range of other important training needs all of which are important in different ways. Recognition of these broader needs entails acknowledgment that users are not only enterprises and employers, but individuals and communities with diverse needs and characteristics.

It was clear from the consultations that there is substantial agreement that User Choice could improve access and equity, if handled appropriately. Through its encouragement of greater flexibility and responsiveness by training providers, it was seen as having the potential to offer a way for the needs of students from access and equity target groups to be addressed. Discussions revealed many examples of failures of the existing system to accommodate such needs. However, acknowledgment of the potential of User Choice to improve access and equity leads to the question of *how* this potential might be harnessed, and done in a way that ensures access and equity is recognised as central to the implementation of User Choice.

This desire to harness User Choice effectively for access and equity raises a number of complex issues. First, throughout the consultation process, uneasiness was often expressed by those in State and Territory training authorities about the enhanced power the proposed User Choice approach might give to employers, peak employer organisations, and private training providers and was centred on the perception of a lack of commitment by these groups to any objectives except those which are self-centred, profit-motivated and concerned with efficiency. The fear was voiced that in a system of this type it would be left to the TAFE colleges to 'pick up the pieces' – to provide for the needs of the disadvantaged, to offer training with objectives other than employment, and to offer more expensive options that took access and equity concerns into consideration. Some considered that this would strengthen and improve the TAFE system; most believed it would lower the status of TAFE, cause funding problems, and create ghettos of disadvantage from which escape would be difficult.

These strong and widely held views were counterbalanced by our discussions with employers and peak employer organisations, during which many raised the topic of access and equity and expressed concern and support for its incorporation within a User Choice system. In addition, discussions about some existing training programs operating on a User Choice type arrangement revealed participation and a willingness by private providers to meet special needs, such as those of remote Aboriginal communities.

Nevertheless, encouraging a commitment to access and equity by employers, employer groups and private training providers remains an important issue requiring resolution if the potential of User Choice to improve access and equity is to be achieved.

Secondly, there is need to achieve a balance in a User Choice system between the needs of employers and other 'users' as identified in 4.1.4 above. Balance is also important in ensuring that the diversity of needs of students in any training program is recognised – and that over-emphasis is not given to particular elements in a way that advantages some students and disadvantages others. Even within the same training program students are likely to have a range of motivations and be seeking a variety of outcomes.

A related issue concerns 'over-customisation'. In our July report, we noted the views of some Aboriginal community groups that while training programs customised to their needs were both sought and welcome, it was also important that these programs have mainstream outcomes. The communities spoke of the dangers of 'over-customisation' – including a reduction in the status of the course and the value of the qualifications in the labour market.

A further aspect of the issue of balance is the need to support diversity within the VET system. Discussions with states and territories revealed that, while they all have a similar broad range of access and equity concerns, in each case the balance of these problems is different, depending on local geographic, demographic and cultural features. Consequently, the access and equity issues that were brought up in consultations were different from place to place. In the Northern Territory, for instance, providing appropriate training for Aboriginal communities is a high priority; in some southern states more emphasis was placed on addressing the needs of students from non-English speaking backgrounds, of women in non-traditional areas, of disabled students, or of students from lower socio-economic groups. The ability of the State and Territory training authorities to respond to local access and equity needs and circumstances in an appropriate manner, based on local knowledge, appears to be a strength of the existing arrangements. As User Choice is extended it is important that such strengths are not only retained but built upon.

Thirdly, it appeared to be important for the overall effectiveness of a strategy for improving access and equity in VET that initiatives such as User Choice recognise and take account of measures that already exist, so that successes can be consolidated and the expertise that has been developed can be tapped and extended. In consultations, it was suggested that the approach to access and equity in VET had so far been too fragmented, with an over-emphasis on short-term funding and quick results rather than long term change. With revision of ANTA's access and equity strategy currently underway, it was hoped that some differences in approach might eventuate.

Given the commitment of Ministers to the introduction of User Choice and the acknowledged potential of this approach to improve access and equity, it is appropriate and important that it be incorporated within any revision of the strategy. Consideration of the likely impact of User Choice on existing initiatives, the need to respond to any unforeseen consequences of User Choice that might work against the improvement of access and equity, and the ways in which User Choice might be used to advantage would strengthen the strategy and potentially make it more effective. It was suggested in discussion that ANTA's *Equity Strategies to the Year 2000 and Beyond* could be redrafted to reflect a User Choice approach within the VET system. In consultation with States, Territories and community groups, short and long-term outcomes could be set for relevant objectives; and strategies for achieving outcomes expanded to include User Choice elements. Achievement of access and equity objectives would be regularly monitored and would be reported to MINCO annually.

A number of issues were raised by those we consulted in relation to the implementation of User Choice in general that also have particular relevance to access and equity. The first concerns the allocation of public funding. In consultations, the view was expressed that the public funding of training should not be used to advantage further those already advantaged, but for the benefit of all members of the community. Moreover, it was asserted that the distribution of funding in a way that fails to

accommodate the training needs of students outside the advantaged group represents the waste of a potentially very large skill pool and thus is an inefficient use of public resources as well as an inequitable practice. This view was often raised in conjunction with fears about the commitment to access and equity of employers, employer groups and private providers and with concerns about a possible over-emphasis on employer needs, to the detriment of the students.

The second matter concerns the costing of training – and the inclusion within the calculation of unit costs of access and equity measures. There was support for the notion that some measures ought to be incorporated. This support was based on a number of reasons including that: unless this occurred access and equity would be marginalised; it would give formal recognition to the existence of community objectives for the system; and it would lead to more effective training. In particular, a strong case was made for the provision within unit costs of training in language, literacy and numeracy skills. Support was also expressed for the inclusion of more general student support services, such as counselling and career advice, that can be effective in assisting students to complete courses and for the provision of information to students about the choices available to them in a User Choice system.

Finally, User Choice can work effectively only where the 'users' have adequate and appropriate information on which to base the choices that they make. Many students from access and equity target groups are information-poor. The need to provide information in appropriate forms and settings for these students was one that was consistently raised in consultations – and is the subject of much concern. This matter is considered further in 4.2.7 below. It appears that to support informed choices by users within access and equity target groups State and Territory training authorities may need to draw up and execute dissemination plans for information about training options and customisation opportunities. This information would need to be available in a variety of forms and languages and through a diverse range of settings appropriate to each region and to the needs of particular community groups and individuals. It was also suggested that mediators/coordinators may need to be available for trainees in access and equity target groups to call on for assistance if required in negotiating and facilitating training.

Key Issue

How might the potential of User Choice be harnessed to improve access and equity in the VET system and be integrated with existing initiatives?

4.2.7 Information

Information is seen as important to the efficient operation of markets. Accurate, relevant and timely information is essential for informed choice; and choice becomes a relatively more significant determinant of training outcomes in a devolved system with a greater range of options open to users than in a more centralised and administered system.

Information is not just brochures or a page on the internet, to be browsed at leisure. Its purpose is to inform, and persuade those being targeted to change their behaviour and attitudes. Perhaps a considerable period of time may be required for new information (i.e. new to the reader) to be incorporated into decision making by employers and enterprises; employees and students; public and private providers of training; and administration and coordination authorities. How specific target groups learn from information is critical to the development of any information strategy.

A range of questions arise relating to information in a training system with a greater element of User Choice: to whom is the information being directed and in relation to what decisions?; when does the information need to be available? that is, when are the decisions made where information is critical?; who is to be responsible for developing, collating and disseminating unbiased information?; which groups will bear the cost, particularly if User Choice should result in training being sourced nationally?

The information needs of the different parties to User Choice are very varied. Thus business claims that generally government programs are always changing or starting and stopping; they suffer from an information overload, yet they are still not up-to-date. The result can be opting out altogether. Facing their own pressures training authorities can forget that employers are also busy people with a business to run and that, for them, training is only one of many concerns and not always the most important or the most urgent at any particular time. These problems can be particularly acute for small business.

AusIndustry has responded to the challenge of how best to target businesses (especially small businesses) with information about its enterprise improvement and other programs and the delivery of those programs. AusIndustry's effectiveness in this regard was noted in the recent Commission of Audit report. It would seem that there would be value in the Commonwealth, State and Territory training authorities learning about AusIndustry's strategies (AusIndustry is also a Commonwealth, States and Territories initiative) and investigating the possibilities for working with them to disseminate information on User Choice. Of course this requires an across government response.

In relation to apprentices, trainees and other students and their parents, our consultations suggest that they have initially no knowledge of the current User Choice initiatives or of the implications for them of any proposed expansion in User Choice. Perhaps this is not surprising given that User Choice policy is still being formulated, although we understand that some parents already have indicated their anxiety about possible changes in training arrangements. As we argued above, widening choice in VET for users will affect these people, they will require additional information, but it will take considerable time and probably multiple approaches to information dissemination for this dispersed group, having very different requirements, to be able to take full advantage of the new opportunities which may arise. Perceived weaknesses in career advice and counselling arrangements in schools should desirably also be addressed in this context.

Finally, it is widely recognised that changes, including in relation to information, are responded to more rapidly by some individuals or groups than others. In particular, disadvantaged groups, whether by reason of lack of familiarity in the English language, non-familiarity with education and training systems (or choice more generally) or poverty and lack of social power and status, tend to be slower to learn about changes, including new opportunities and sources of information, and to take advantage of them. Thus there are access and equity aspects of changing information sources and availability in moving to greater reliance on User Choice.

In summary, information is seen as important to the efficient operation of markets: without good information less satisfactory or incomplete choices are more likely to be made. Among the matters pertaining to information that need to be addressed are the following:

- the need to 'market' the User Choice concept and the related arrangements to employers, employees and providers;
- provision of information to employers giving details of VET providers on a national basis and the scope and terms of customisation. At the same time there is need for continuing advice from enterprises about their changing training needs and the degree to which these needs are being met;
- advice to potential students/employees and their parents about training opportunities and the terms on which training can be accessed. Associated with this matter is the need to improve career advice and counselling. This is not just a matter for VET but also for schools; and
- access and equity issues related to information that will be relevant in any move towards a greater reliance on User Choice.

It is noted that better information reduces the risk that inappropriate choices are made, but it does not eliminate the risk. There is an issue about who bears the costs of inappropriate decisions: if enterprises have a greater say over training decisions how are the costs of inappropriate decisions distributed between them and their employees/students?

Key Issue

Given the requirement to publicise and explain this radical change in the approach to training delivery; and given the increased importance of information in a decentralised, market orientated, User Choice system, what information should be provided and which groups are responsible for funding and/or making it available?

4.3 Supply Responses

User Choice is, of course, a demand side initiative but the purposes of User Choice, to allow enterprises and individuals to exercise more choice in relation to their training needs, will be circumscribed if significant monopoly elements remain on the supply side of the market. It is for this reason that one of the essential elements of User Choice is increased responsiveness on the supply side of the training market, to enhance the capacity to meet the individual VET needs of enterprises. Our earlier discussion of the scope of the training market is also relevant.

The Hilmer Report continues to provide the standard against which alternative frameworks to develop a more contestable training market may be measured. Hilmer's recommendations remain valid and can be applied to VET even if some officials are uncomfortable with the Hilmer provisions (J. Selby Smith, 1995).

Three issues need particular emphasis. First, there is the necessity for continued structural reform. Secondly, there is the issue of third party access. Thirdly, the providers, in meeting user demands, need to know the differential resource costs involved in delivering particular training services; and reflect those costs in their pricing.

Costing and pricing raises the related issue of cost shifting among the various parties to the overall training decision. It is also considered in this section.

4.3.1 Maintaining and Enhancing the Momentum for Structural Reform to Achieve a More Open and Competitive Training Market

Structural reform has a number of elements but of particular relevance here is the need to continue to restructure the delivery of potentially competitive activities (most training services) into a number of smaller, independent units. Essentially, this means the devolution of administrative and financial responsibility within the public VET system to individual TAFE institutions or campuses. User Choice imposes an increased requirement that providers are able to respond promptly and flexibly with users in relation to specific aspects of their training requirements, and in relation to the ongoing collaborative arrangements for training. This requirement is severely constrained when responses come from the central office, are more formalised and slower.

State and Territory training authorities have reservations about moving towards a more open and competitive training market in a significant way, including devolution of authority and responsibility to individual TAFE institutions. These reservations are held more strongly in some jurisdictions than others. Peak employer organisations generally strongly support the need for continued supply side reforms, including devolution; and the structuring of incentives at all levels to encourage the achievement of the overall objectives of User Choice.

There is an important role for incentives: and a lack of clarity in many of the discussions about the nature of incentives, how they operate and why, under conditions of User Choice, they will play a greater role in the allocation of resources for training. Incentives (and disincentives) are actions that affect attitudes and behaviours. Incentives are inherent in all structures, including regulatory and legal frameworks. In particular, they encompass more than monetary payments to individuals, although supplementary payments for particular achievements would be a form of incentive. For example, highly centralised administrative arrangements which operate in response to their own internal logic may be seen as a disincentive to initiative at the level of the individual TAFE college.

Another example at a different level is that if trainers bear an increased work load because they meet the training requirements of enterprises more effectively than their colleagues, but nothing else changes, it would hardly be surprising if conclusions were drawn which reduced the individual's responsiveness.

It is considered critical that the pattern of incentives, whether monetary or otherwise, be aligned with what the system as a whole is seeking to achieve. This alignment is required at all levels of the VET system: in coordinating and central agencies; at college, campus and department levels; and for individual trainers. There is little point in saying that a particular objective is to be achieved if practical incentives encourage behaviour directed to other (conflicting) ends.

As User Choice is introduced more widely into the VET system, relatively more training decisions will be the outcome of individual negotiations and relatively fewer will be centrally determined. The achievement of overall objectives will then depend more on responses to the pattern of incentives and structures at the local level than is the case where decisions are more centralised and administered. For example, price becomes a more important signal relative to direction.

There are also implications for structures as individual negotiations between enterprises and potential training providers become more common. It is argued that decisions generally will be more focused, and perhaps more easily settled, if the individual users (or their brokers) are able to negotiate directly with particular providers who have the authority to act, than if decisions have to be ratified centrally, often at a distance and according to more formalised procedures. User Choice will fulfil its potential best where there is devolution of decision making (and with it responsibility and accountability). Enterprises facing increased competitive pressure need to become more responsive (quickly) and flexible; and they expect their 'suppliers' to act in a similar way.

Key Issue

Effective implementation of User Choice requires continued reforms on the supply side to achieve a more open and competitive training market on a nation wide basis. This is a greater challenge in some States and Territories than others.

4.3.2 Third Party Access

Third party access refers generally to access to those facilities which exhibit natural monopoly characteristics and occupy a strategic position in an industry, such that access to them is necessary if a business is to compete in that industry. The national competition policy documents provide for the declaration of certain services provided by facilities which are of national significance, and the means by which persons may seek access to them. In the course of our consultations third party access issues were raised by both State and Territory training authorities and by peak employer organisations. It was also of interest that third party access was raised in relation to VET in schools and group training companies.

There may be expensive or specialised training facilities where assured competitor access could be appropriate in certain areas; these facilities could be in the public sector and in certain industry settings and may include expensive equipment. There may also be access problems in some geographical areas where the small scale of operations overall makes duplication of facilities uneconomical even where those facilities might not otherwise be considered generally as expensive or specialised, e.g. library facilities or student services. Third party access could also provide opportunities for the more efficient and intensive use of publicly provided facilities, say at nights or weekends and in holiday periods.

State and Territory training authorities generally were uncomfortable with the notion of third party access, whether through the establishment of equitable access arrangements or capital charging. Some officials would seem to have a proprietorial approach to the ownership and use of these taxpayer funded facilities, rather than seeing them as available for a wide range of socially valuable purposes. On the other hand, peak employer organisations and alternative providers strongly supported the approach. Third party access could also be important for effective interstate competition among providers, for group training companies and for VET in schools.

Attention will need to be given to how access prices might be determined and other terms and conditions. There is no general agreement as to how access prices might be calculated having regard for their efficiency implications, other than that they should be in the range of no less than marginal cost and no greater than average cost.

Key Issue

The issue is whether alternative providers have a right of access to publicly provided training facilities, particularly expensive or specialised facilities, and on what terms. User Choice implementation would be only partial if third party access is not granted (and on reasonable terms).

4.3.3 Costing and Pricing

If User Choice is to become a more significant element in VET, issues related to costing, pricing and charging will become more important. In market-oriented approaches, price becomes a more important signal than in situations where resource allocation decisions are more centralised and administered. Generally, in most markets, competition is on the basis of price and non-price factors; however, the relative importance of price and non-price factors can vary from case to case and from time to time. Training providers have informed us that some users place relatively greater emphasis on price factors when comparing alternative training opportunities, whereas others are prepared to pay a higher price for training programs which include additional components related to their particular needs. Training providers, in meeting user demands, need to know the differential resource costs involved in delivering particular training services; and to reflect those costs in their pricing. This is a necessary condition if resources are to be used efficiently. Furthermore, if colleges have to cover costs and pricing decisions yield insufficient revenue, colleges could become insolvent.

The consultations underlined what has been widely surmised: that providers, even at State or Territory level and especially at a decentralised, local level in the public systems (probably less so among the private providers), are generally not well informed about the true costs of providing training at various levels, to differing groups of students and in differing locations. Even average costs are often unavailable, let alone marginal costs. The cost estimates which are available typically refer to recurrent expenditures only; and capital costs generally cannot be accurately compared between alternative providers, whether public or private. There has been little study – basically none on a consistent national basis – of matters such as best practice, benchmarking, elasticity of demand for different courses, cost variations due to enrolment size, geographical location and mode of delivery or the costs of incorporating specific access and equity objectives (see Maglen and Selby Smith, 1995). There are costing aspects of the projects to be funded under User Choice and there are also cost consequences for

the VET system from which such courses or students are to be withdrawn. The problems which have been identified are significantly more acute in some States or Territories than in others.

It has been argued on occasion that some of the problems noted above can be effectively addressed through use of national benchmarks – in the extreme a single national benchmark. The consultations confirmed very clearly that an approach to User Choice implementation which is based on an assumed national unit cost has serious deficiencies, even if it could be assumed that training courses in VET were provided at the maximum level of efficiency everywhere – this is not the case now and is never likely to be. Certain colleges, even whole State or Territory training systems, would not be viable. Similarly, certain objectives to which it seems likely the VET system will wish to continue to aspire, such as the need to address deficiencies in literacy and numeracy among certain students or other specific aspects of VET provision (for example, to remote communities), are unlikely to be feasible under a single national unit cost approach. A more complex approach which takes account of benchmarked efficiency levels (which may well require increasing use of interstate comparisons) together with various adjustments for achieving other VET objectives is likely to be required.

Four other points arose out of the consultations. First, costing and pricing decisions are required at various levels of the VET system for the effective implementation of User Choice. These uses include for the allocation of Commonwealth funds to the States, State funds to individual providers, and costing and pricing at the level of individual provider. However, some of those consulted argued that providers should not have to reveal their cost structures to 'higher level' funders if funding is on a competitive basis. They noted that, generally, suppliers do not reveal their cost structures to purchasers and other competitors in private markets. It was also argued that there should be a recognition that, as in the private sector, lower prices may be charged as a legitimate part of a (public) provider's business development strategy, particularly in the short term.

Secondly, it was noted that competitive neutrality between public VET systems requires costs to be calculated on a consistent basis between States and Territories. An argument was advanced during the consultations that, because of historic differences among public training systems, even standardised costs would be difficult to equalise in the short term. In some cases the differences are substantial. There may need to be transitional arrangements in relation to the introduction of full interstate competition between the public VET systems.

Thirdly, competitive neutrality between public and private providers requires that costs be calculated on a comparable basis. At present, this is frequently not the case. For example, capital costs might be included by private but not public providers, whilst public providers might include certain services not required of private providers. For efficient allocation of resources and for competition on a fair and reasonable basis, it is essential that the costs are calculated on as similar a basis as possible.

Finally, there are aspects of pricing and charging which relate to third party access. Assuming that publicly funded training facilities are to be available to alternative providers, whether public or private, there is the question of what the terms and conditions of access (or potential access) are to be, and who is to set them. It was suggested in one State that an alternative might be to charge for the facilities and equipment provided, thus giving the local provider an incentive to recoup at least some of the costs from use of the facility by alternative providers.

Considerable work already has been undertaken, for example through the Unit Costs Working Party, and progress is being made in some jurisdictions to improve the information on costing (for example, see ACVETS 1995). However, there remains much more to be done. An approach which utilises benchmarked prices which assume the efficient provision of training, with cost loadings for other objectives, locations and student groups, seems to have merit and to command a considerable measure of support among those who were consulted, noting that for some colleges the relevant benchmark

would need to be similar institutions in other States or Territories. At present the comparisons generally tend to be other institutions in the same State.

Key Issue

Extensive work is required on costing and pricing, given that a more market-oriented User Choice system is to be implemented, initially in MAATS, from January 1998. Related structural reforms, notably devolution of authority, responsibility and accountability, are also required. These changes pose challenges to many parts of the VET system; the challenges occur against an uneven background of previous knowledge and reform; and given outcomes will be notably more difficult to achieve in some jurisdictions than in others. Relevant work is required at various levels in the VET system, would benefit from interstate co-operation and needs to be set in hand urgently for effective implementation of User Choice from January 1998.

4.3.4 Cost Shifting

In the paper circulated to State and Territory training authorities and others, brief reference was made to the possibility of cost shifting from the private to the public purse. The consultations emphasised that this was a significant concern: cost shifting was raised as a key issue by a number of those consulted, including State and Territory training authorities, individual providers and peak employer organisations.

The concerns of State and Territory training authorities related to three main areas. First, concern was expressed about the possibility that, under User Choice, the cost of training which had previously been borne privately would be transferred to the public purse. There would seem to be quite a number of enterprises who hitherto, have wholly or largely funded their own training. Secondly, concern was expressed that User Choice would result in an increase in the total quantity of training; indeed from one point of view this may be an intended outcome from the introduction of User Choice and a measure of its success. Nevertheless, it may result in increased demands on limited public resources for training; for example, from industries which hitherto have not been very training intensive and from new industries. Thirdly, it was suggested by some of those consulted that users might choose higher quality and higher cost training and expect this to be paid for publicly. In fact, supply side constraints are relevant in any market and will remain relevant under User Choice.

The cost shifting arguments are complex. First, it might be expected *a priori* that, under User Choice, training resources would be used more efficiently, so that given training outputs would be achieved with the use of fewer resources in total. Indeed, this is presumably one of the expectations of those who argue for greater demand side pressures in VET, including User Choice.

Secondly, training resources are the sum of the contributions of resources from enterprises, employees/students and governments. As argued earlier, if training becomes more focussed on the specific and perhaps short-term needs of enterprises, and if User Choice encourages a closer integration of on-the-job and off-the-job training, then it may well eventuate that a greater proportion of the total benefits from training accrue to enterprises. If this is the case there may be grounds for them to bear a greater share of the costs. Indeed, with increasing numbers of trained people, there may be a secular tendency for a growing proportion of the benefits of VET training to accrue to those who are directly involved (i.e. as private benefits) and a decreasing proportion to accrue to society more generally (i.e. as public benefits). Further, if the changes in industrial relations arrangements proposed by the Howard Government result in widening pay differentials in employment, including for the skills acquired in VET, there may also be an argument for employees to bear a greater share of the costs of training. It follows that, for given training outputs, a lower level of government contribution would be required.

Thirdly, there are arguments in the other direction. In particular, it may be that User Choice is expected to lead to an increase in the overall demand for training from enterprises. This could be one of its objectives, for example by increasing the involvement of enterprises in training matters and also their ability to influence the way in which training is provided. If this occurs it is likely to involve some increase in the demand for public funding. It is an empirical matter whether this increase in the demand for the public funding of training is greater than, equal to or less than the reduction in the call on public resources identified above.

The outcome is that the net shift in costs for governments, *ceteris paribus*, cannot be predicted *a priori*. However, it is clearly a concern, especially among the State and Territory training authorities, including how the potential increase in enterprise demands for training (including a public contribution) are to be reconciled with continuing public expenditure constraints. Under User Choice, the public funding of VET could be supplemented by users where there was a demand for more extensive or higher quality training: this approach is consistent with the widespread practice of governments in other areas to 'lever up' the effects of limited public funds on outcomes. There are also issues relating to the relative allocation of public training resources between different industries and occupations, where long-established patterns may not be acceptable to some parties, including new or growing industries, or those seeking to raise skill and training intensity. Industry led advisory groups could assist in determining these priorities.

In our view the total resource cost of training and its distribution among the various parties to the complete resource allocation decision require careful consideration and continuing monitoring, including any changes which may result from the implementation of User Choice.

Key Issue

The possibility of cost shifting from the private to the public purse is a concern to State and Territory training authorities. In fact, total costs can alter and the respective proportions borne publicly and privately can vary in either direction. The consultations also made it clear that cost shifting could take place from the public sector to the private sector, as well as in the opposite direction.

4.4 'Thin' Markets

Markets are said to be 'thin' when there are insufficient demanders, and/or suppliers, to promote a degree of vigour in the market. Concern for the 'thinness' of markets in certain locations was frequently raised during the consultations. A number of observations can be made in relation to this issue. First, there can be a subjective interpretation of how 'thin' a particular market might be. What constitutes a 'long way' and 'sufficient numbers' can vary significantly across Australia. Regional rivalries can also contribute to perceptions of 'thinness'.

Secondly, there are implicit assumptions in relation to thinness which can be questioned in particular instances. These assumptions include:

- that 'everywhere' should have access to 'all' facilities;
- that training should be provided by a locally based institution;
- that, preferably, this institution should be public; and
- that training authorities and coordinating bodies' prime, perhaps even only, responsibility is to the public system. (If so, who looks after the wider VET system?)

Thirdly, contestability is interpreted by some as competition between existing, actual providers in a given location. In fact, contestability will exist where there is at least the threat of competition from potential entrants (other providers), even if only one provider currently operates.

Where there is thinness on the supply side, opening up markets to registered providers on a national basis will increase contestability. Rights to third party access are a complementary measure.

It is also possible that the implementation of User Choice could exacerbate thinness on the demand side. For example, an enterprise, in exercising its new right to User Choice, may withdraw students/employees from a particular course, reducing the number of enrolments to unviable levels. What does the previous provider (public or private) do in this situation? They could: cancel the course; provide additional resources to maintain provision of the course (some resources will already have been diverted to the enterprise); seek an agreement from the enterprise to enrol other students in its course (perhaps as a condition of public funds being provided, although the enterprise course may be focused on its own particular needs); or use the remaining resources available to the provider to seek innovative ways of enabling the other students to continue with the program.

We would not want to underestimate the burden of time and cost imposed in particular cases because training is not readily available nearer to home or work. However, given that the situation under review is likely to arise only for a minority of students, perhaps only for a small minority, and that a wide variety of partial solutions could be proposed, it is suggested that the situation be kept under review as User Choice is being implemented, that State and Territory training authorities bear in mind the interests of all students including those whose interests are not being so actively advanced by enterprises, and that they be prepared to consider the adoption of innovative solutions to vary provision in particular circumstances.

Key Issue

'Thin' market arguments should not be regarded as a barrier to the widespread introduction of User Choice; and the 'thinness' of markets can, to some extent, be reduced by appropriate initiatives. Implementation of these initiatives is especially important for the effective introduction of User Choice in those regions, States or Territories where the training authorities believe the market is particularly 'thin'.

4.5 Maintaining the VET Base

There are aspects of maintaining the VET "base", perhaps particularly in the public sector where broad coverage of different regions and groups within the population may weigh more heavily than for private providers. Two aspects are considered in particular: staffing and infrastructure.

It is important to recognise the central contribution of staff to the training enterprise, whether in public or private provision, in enterprises or in training institutions, on-the-job or off-the-job; and the capacity and commitment of many trainers. Dedicated, capable and committed teachers are found in all TAFE systems.

Nevertheless, if User Choice is to become a larger part of the VET system in Australia it raises a number of issues in relation to TAFE trainers. They have always needed to be up-to-date in their own field, pedagogically competent, and knowledgeable about industry developments, but User Choice puts an even greater premium on these characteristics. Discussions with State and Territory training authorities included the issue whether the public VET system in general, and publicly employed staff in particular, would benefit from assistance to enhance their capacity to compete more effectively in the future.

In general, State and Territory training authorities expressed little interest in this matter, notwithstanding that the quality and commitment of staff in service industries are critical to their competitive positions; that this factor will become even more important for public providers under User Choice; and that staff represent the greatest proportion of the resources invested in VET.

In contrast, the peak employer organisations generally were not unsympathetic to the idea. However, they emphasised that, in their view, the public systems should be expected to provide an improved product and that, ultimately, individual trainers should not be supported if they did not provide a quality service.

There was greater interest expressed in infrastructure issues by State and Territory authorities. Relevant matters have already been discussed earlier in relation to third party access and the asset management requirements placed on State and Territory training authorities.

5 Introducing User Choice on an Effective and Sustainable Basis

Implementation is often seen as less challenging and important than developing the policy framework to be implemented. It can certainly be argued that in Australia the rewards and recognition are disproportionately given to those who develop the ideas, rather than those who implement them. In fact, of course, implementation of a major policy change is a long, difficult and arduous process; and the initial ideas are often significantly modified during the processes of negotiation, dissemination and implementation. Effective implementation requires continuing commitment at political and senior bureaucratic levels; and for this commitment to be sustained over a period of time

Effective implementation involves a wide range of participants. Approaches in the various States and Territories are different: they reflect significant differences in the culture, history, structural arrangements and priorities in each jurisdiction, differences which can often be overlooked until Federal/State negotiations are well under way. The agreed direction of change may be similar, but the processes can differ markedly. Account should also be taken of the fact that the VET system is changing in a number of complex ways of which User Choice will only be one.

If User Choice is to be introduced, in the first instance in MAATS, on an effective and sustainable basis, certain matters need to be addressed. First, objectives and outcomes need to be specified and agreed; and clear measures developed to establish the extent to which outcomes are being achieved by agreed dates. Such an approach stands in contrast to that which is process-centred.

An approach based on objectives and outcomes recognises the key role for a national body : to monitor the achievement of outcomes, to operate in relation to strategic issues (for example, determining objectives and outcomes; and establishing and maintaining the overall regulatory and legal framework) and to facilitate collective consideration and action where parties agree them to be desirable, leaving the detailed aspects of process to State and Territory training authorities and individual providers.

Such an approach also recognises that State and Territory training systems start from very different positions, which may imply different processes to pursue given objectives and to achieve given outcomes. It is outcomes not processes which are the central focus of the development of User Choice policy and implementation.

Secondly, User Choice is intended particularly to increase the influence and involvement of enterprises in the training system. If the refinement of User Choice policy, its implementation and monitoring is confined to Government agencies alone this intention will not be achieved and in any case, business will not feel involved. Reference has already been made to the desirability of having business involved in all levels of policy development at the national level; and involvement in processes of implementation at State and Territory level would be desirable. There would seem to be a case also for the establishment of a group at the national level to monitor the achievement of outcomes and relevant intermediate outcome targets, such a group to include representatives from employers (and unions) as well as State and Territory VET systems.

Thirdly, given that States and Territories will start from different positions, Ministers need to agree whether the achievement of outcomes is to be measured in absolute or relative terms; that is, whether they are to reach a particular common set of outcomes or whether they are to move an equal distance in an agreed direction. To adopt an absolute measure will impose much heavier demands on some States and Territories than others and could even undermine commitment to the agreed policy changes.

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Appendix 1: Principles Underlying the Identification of User Choice Policy Issues

The principles which provide the basis for our identification of the key policy issues which need to be resolved to achieve full implementation of User Choice on an effective and sustainable basis are set out under four headings.

The Training Market

- The training market is a national market and not limited by State or Territory boundaries. Competition among providers can be conducted on a nation-wide basis. Hilmer notes that 'there is increasingly acknowledgment of the reality that Australia is for most significant purposes a single market' and the Hilmer reforms are based on that view. Enterprises operate under the scope of legislated Hilmer reforms and it would be inefficient if markets for key inputs including training were not subject to a similar approach.
- The market relationship that is the focus of User Choice is directly between the individual client and the individual training provider.
- Information is a necessary condition for the effective operation of any market. In the training market, government has a role in relation to accurate, relevant and timely information being available as a basis for informed choice.

- **On Training**
- Training is a productive investment, not a recurrent cost. The economic benefits of training are captured first in enterprises through the effective employment of skilled people.
- Training is a subset of learning; the balance between training and other forms of learning varies among industries, and among enterprises of different size.
- The benefits of training are shared among enterprises, the employees and the wider society. Efficiency and equity considerations both require that the distribution of costs and benefits are related.
- The interests of employers and individuals in training frequently overlap to a significant degree, but are not always exactly the same.

User Choice in VET

- The User Choice policy context is the VET system as a whole rather than its individual constituent elements. These elements include: the formal and informal sectors; the public TAFE system and private providers, including industry providers and group training companies.
- User Choice, which is focused on meeting the training needs of individual enterprises more effectively, is seen in the context of the wider demands on the VET system including: consideration of the overall skills pool; training requirements for new industries where currently there are few enterprises; meeting the needs of access and equity target groups; and remedying deficiencies arising from other sectors of the education and training system, including literacy and numeracy.
- Once the multiple objectives of the VET system are specified and priorities are established, resources are allocated in a transparent manner to achieve those objectives in the most efficient way possible. By this means provisions for 'special' purposes e.g. to meet the needs of access and equity target groups, can be made transparent and more readily incorporated into mainstream funding and provision.
- Incentives, whether monetary or otherwise, affect attitudes and behaviours: they are inherent in all structures, including regulatory and legal frameworks. Objectives are achieved most completely where the patterns of incentives are aligned, at all levels, with what the system as a whole is seeking to achieve.

Evaluation and Innovation

- Evaluation of outcomes against objectives is an integral element of any program of continuous improvement. Innovation is required to achieve and maintain a best practice training system.